# EXECUTIVE SECRETARIAT

## Routing Slip

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NSC review completed.

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

December 22, 1982

UNCLASSIFIED
(With Secret Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT Senior Interdepartmental Group on International Economic Policy (SIG-IEP)

Attached please find background material on Yugoslav financial developments for discussion at the SIG-IEP meeting to be held on Thursday, December 23, 11:00 a.m., in the Roosevelt Room.

Agenda items are:

1. Report on US-EC relations by Secretary Shultz; and
2. Report on Yugoslav financial developments.

David E. Pickford

David E. Pickford
Executive Secretary

Attachment

UNCLASSIFIED
(With Secret Attachment)

Highlights of Eight Nation Meeting on Yugoslavia

December 17, 1982

## Financial Situation

° At the end of the year Yugoslavia will have $200 million in available reserves.

° A current account deficit for January 1983 is forecast and the IMF estimates that there are $300 million in debt payments due. The Fund believes the crunch will come by the middle of the month.

° The total financial gap could be as high as $1.5 billion; virtually all of it will fall in the first half.

## IMF Negotiations

° Negotiations on the third and final year of a Fund program are difficult. While the Yugoslavs agree with the philosophy of the Fund staff on the general shape of the program, they are quite far apart on agreement on the specifics being asked for by the Fund:

-- A further devaluation of 12.5 percent in January plus monthly adjustments for inflation or a 4 percent devaluation in January plus monthly adjustments for inflation and an additional adjustment of 1 1/2 percent a month to bring about a devaluation of 20 percent by the end of the year.

-- Raising nominal interest rates from 4-9 percent to approximately 30 percent at a time when inflation is running at 25 percent.

-- Limiting the growth of money and credit to about 10-11 percent.

-- Sterilizing windfall government revenues arising from inflation rather than using them to finance budget expenditures or tax cuts as was the case in the past.

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-- Freeing up administered prices in four or five major sectors to world price levels and adjusting them frequently to maintain pace with inflation.

-- Shifting from a $250 million current account surplus with the Eastern European countries to a $250 million deficit in 1983.

Next Steps

° The desired scenario is: Yugoslavia agrees with the Fund; IMF Director De Larosiere signals major creditors that he has a program he is willing to support; a European central bank hosts a meeting of private banks, at which time the Fund explains its program and the need for complementary finance (read: the banks must stay in); governments agree to a billion dollar medium-term package and $300 million IBRD structural adjustment loan; and a short-term bridge, probably through the BIS, is put together.

° The French will contact the Yugoslavs to let them know of our meeting and of the unanimous sentiment of the group for Yugoslavia to reach agreement with the Fund on a solid program. The French will also ask the Swiss, who departed early, to take the lead in putting together a meeting of the bankers once De Larosiere signals an agreement has been reached in principle. The French will also ask the Swiss to take the lead in expanding the group to include other creditors and to host the next meeting, which could occur between Christmas and New Year's.

Status of Commitments

° The U.S. indicated we could do $200 million in export credit guarantees for badly needed agricultural products. The Germans said they could do $110 million in export credit guarantees, while the British said they could put up $50 million in credit guarantees. The Austrians and Swiss pledged financial -- untied balance of payments -- credits of an unspecified amount. The Japanese made no pledge, while the Italians said they would ask their new government for $110 million in export credits. The French lectured the group on he need for financial credits rather than export credits. (The IMF felt that of the $1 billion, approximately two-thirds should be financial credits, while one-third could be export credits or guarantees.) When other governments matched the French contributions of $150 million in 1980 and 1981, as allegedly called for in the Venice Summit, then France would be prepared to make another effort.

Comment: We are aware that the Swiss and Austrians might do $100 million each. This brings the potential total to $670 million out of $1 billion to be provided by governments.

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